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Memorandum
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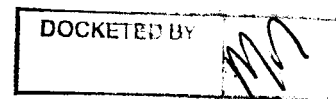
COMMISSIONERS
MIKE GLEASON, Chairman
WILLIAM A. MUNDELL
JEFF HATCH-MILLER
KRISTIN K. MAYES
GARY PIERCE

12 CORP COMMISSION
DOCKET CONTROL

IN THE MATTER OF THE APPLICATION
OF ARIZONA PUBLIC SERVICE
COMPANY FOR APPROVAL OF ITS
2009 RENEWABLE ENERGY
STANDARD IMPLEMENTATION PLAN
AND DISTRIBUTED ENERGY
ADMINISTRATIVE PLAN AND
REQUEST FOR RESET OF RENEWABLE
ENERGY ADJUSTOR
DOCKET NO. E-01345A-08-0331

Arizona Corporation Commission
DOCKETED

DEC 11 2008



REGARDING STAFF RECOMMENDATIONS TOGETHER WITH APS
FOLLOW ON COMMENTS TO ARIZONA PUBLIC SERVICE 2009
RENEWABLE ENERGY PLAN RENEWABLE RESEARCH AND
DEVELOPMENT PROVISIONS

In the Arizona Public Service 2009 Implementation Plan the Company proposed a budget of \$500,000 specifically for research and development including the intention to coordinate closely with Arizona universities so as to better utilize the resources in renewable R&D efforts. Staff recommends that the research be reduced to cover only specific research projects with direct, verifiable benefits for APS and its customers. Staff recommends Commission approval of \$150,000 for a targeted research of thermal energy storage, and then recommends approval of the expenditure of the remaining \$350,000 be held pending approval of specific projects. APS in its response to the staff recommendations state that 'APS intends to allocate \$350,000 to Arizona universities for projects in specific areas of interest including distribution level battery storage, integration of distributed technologies with Smart Grid and

compressed air energy storage for renewable energy. APS then proposes an amendment to cover these specific areas and broadens the partnership to include the Department of Energy. It is recommended that the Commission further amend this specific list of projects to include "projects that address scaling both distributed and central station renewable energy systems with direct verifiable benefits consistent with meeting the REST goals". It is further recommended that the Commission delete reference to the Department of Energy as a partner or broaden it to include "cost sharing partnerships".

For APS to meet the REST requirements necessitates that the utility scale renewable energy beyond that currently supported. To achieve the scale APS will have to undertake innovative projects and in the process incur risks that can be mitigated by a strong research and development. Moreover federal and state policy regarding renewable energy is expected to change and expand. Allowing APS to proceed with its research and development plans without requiring the approval of specific project contracts will provide it the flexibility it needs to work with Arizona universities and to seek cost sharing partner in its research and development program.

RESPECTFULLY SUBMITTED this 11th day DECEMBER 2008

A handwritten signature in black ink, consisting of a series of loops and a long horizontal stroke extending to the right.

Robert Annan
Annan Group